

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 NEA-10 ISO-00 AID-05 CIAE-00 FRB-01
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INFO USDOC WASHDC
DEPT OF TREASURY WASHDC
AMEMBASSY ABU DHABI
AMEMBASSY CAIRO
AMEMBASSY JIDDA
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DEPT PASS EXIM

E.O. 11652: N/A
TAGS: ETRD, BEXP, XX
SUBJECT: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT
POLICY

REF: STATE 95673

SUMMARY: EMBASSY WELCOMES PRESIDENT'S SPEECH AND CREATION
CABINET LEVEL TASK FORCE ON EXPORT PROMOTION. BELIEVE IMPORTANT
STEP IN IMPROVING U.S. EXPORT PERFORMANCE WILL BE TO LIBERALIZE
EXIM BANK PROCEDURES SO THAT WE CAN COMPETE MORE EFFECTIVELY
IN THIRD WORLD MARKETS. ALSO BELIEVE EXIM SHOULD BE
PLAYING LARGER ROLE IN DEVELOPMENT PROJECT FINANCE. EFFECTIVE
U.S. EXPORT PROMOTION EFFORT WILL REQUIRE DEVOTING ADDED
RESOURCES TO FOREIGN SERVICE AS WELL AS A RECONSIDERATION
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OF ORGANIZATIONAL CHANGES IN USDOC. IN GENERAL, IT WILL
BE NECESSARY IN FUTURE TO ATTACH GREATER WEIGHT TO EXPORT
IMPLICATIONS OF POLICY DECISIONS MADE IN WASHINGTON.
END SUMMARY.

1. EMBASSY WELCOMES PRESIDENT'S SPEECH AND CREATION
CABINET LEVEL TASK FORCE ON EXPORT PROMOTION. WE HOPE

THAT CREATION OF SUCH A GROUP CHAIRED BY SECRETARY KREPS WILL LEAD TO A REJECTION OF DEFEATIST ECONOMIC THEORY WHICH OVER LAST SEVERAL YEARS HAS PLACED BLIND FAITH ON "INVISIBLE HAND" OF EXCHANGE RATE ADJUSTMENTS TO TAKE CARE OF OUR TRADE PROBLEMS. THERE ARE IMPORTANT AND EFFECTIVE STEPS WHICH CAN BE TAKEN TO IMPROVE OUR PAYMENTS POSITION AND CONTRIBUTE TO THE GROWING WORLD ECONOMY, WHICH IS MORE THAN A ZERO SUM GAME WHERE DEFICITS AND SURPLUSES ARE ABSTRACTLY TOTALED. USG PROGRAMS CAN MAKE A DEFINITE CONTRIBUTION TO THE COMPETITIVENESS OF AMERICAN SUPPLIERS OF GOODS AND SERVICES AND PROVIDE IMPORTANT MARGINAL CONTRIBUTIONS TO OUR EXPORTS.

2. WHILE OUR RECOMMENDATIONS FROM KHARTOUM ALMOST BY DEFINITION ARE PAROCHIAL, OUR FIRST NATIONAL CONCENTRATION SHOULD BE ON EXPORT FINANCING FROM A COST EFFECTIVENESS POINT OF VIEW. WE ARE SADLY DELUDING OURSELVES WHEN WE THINK WE ARE TAKING MEASURES TO REDUCE COMPETITION IN EXPORT FINANCING OR THAT SUCH MEASURES WILL BE EFFECTIVE WITHOUT UNACCEPTABLE POLITICAL TRADEOFFS. EXPORT PROMOTION FOR MANY OF OUR CLOSEST ALLIES AND COMPETITORS RANKS CLOSE TO THE TOP OF THEIR FOREIGN POLICY OBJECTIVES. COMPETITION EXTENDS WELL BEYOND RATES AND TERMS ALTHOUGH THESE MAY BE CRUCIAL IN MANY CASES. A FUNDAMENTAL FACTOR IN THIRD WORLD EXPORT COMPETITION IS THE WILLINGNESS TO ACCEPT RISKS (SEE KHARTOUM 0957 AND KHARTOUM 1240). OUR EXPERIENCE WITH EXIM UNCLASSIFIED

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SUGGESTS THAT IT IS MORE CONSERVATIVE THAN COMMERCIAL BANKS- WHEREAS BY DEFINITION AN EXPORT PROMOTION AGENCY SHOULD BE MAKING GUARANTEES AND LENDING AT THE MARGIN. WE SERIOUSLY QUESTION WHETHER ANY ENTIRELY SELF-SUPPORTING AGENCY WILL BE ABLE TO EFFECTIVELY SUPPORT EXPORTERS GIVEN SUBSIDIES OF COMPETITIVE EXPORT FINANCE AGENCIES. THE BIAS OF EXIM APPEARS TO BE AWAY FROM THE MARGIN TOWARD THE BUREAUCRATICALLY SAFE. THIS IS PARTICULARLY TRUE BECAUSE EXIM PERSONNEL ARE PUNISHED FOR BAD LOANS AND NOT REWARDED FOR SUCCESSFULLY ASSUMING RISKS. WE UNDERSTAND THAT EXIM FEELS RESTRICTED BY THE REASONABLE ASSURANCE OF REPAYMENT TERMS OF ITS CHARTER. AS A FIRST STEP IN OUR NATIONAL EXPORT PROMOTION PROGRAM, WE RECOMMEND THAT INTERPRETATION OF THIS CLAUSE BE LIBERALIZED, FULLY REALIZING THAT ULTIMATELY THE ENTIRE LEGISLATIVE BASE OF OUR EXPORT FINANCING EFFORT WILL HAVE TO BE FUNDAMENTALLY REVISED.

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3. ANOTHER INTERIM FINANCING STEP WHICH COULD HAVE IMPORTANT EXPORT CONSEQUENCES IS EXTENDING EXIM'S FINANCING FROM ONLY US COMPONENTS TO PROJECT FINANCE. SUCH AN ENDEAVOR WILL REQUIRE INCREASED RESOURCES IN OUR EXPORT FINANCING AGENCY BECAUSE ANALYSIS WILL HAVE TO SHIFT FROM COUNTRY CREDIT CONSIDERATIONS TO PROJECT APPRAISAL. THIS WILL HAVE AN IMPORTANT SPINOFF ADVANTAGE IN GIVING OUR EXPORT CREDITS MORE INVOLVEMENT WITH AND AN IMAGE OF "DEVELOPMENT." FURTHER, WITH A REAL PROJECT APPRAISAL CAPABILITY WITHIN EXIM ASSISTED BY THE FOREIGN SERVICE, WE COULD MORE EFFECTIVELY STUDY WHETHER WE SHOULD FOLLOW OUR PRINCIPAL COMPETITORS IN MIXING DEVELOPMENT AND EXPORT FINANCE. WE HAVE FOUND NO CREDIBLE GROUNDS TO EFFECTIVELY RESIST SUCH MIXING BY DONORS. ANOTHER AREA WHERE WE HAVE FORFEITED.

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4. DURING THE PAST DECADE THE FOREIGN SERVICE HAS MADE LONG STRIDES IN MORE EFFECTIVELY SUPPORTING AMERICAN BUSINESS AND DEVOTING ADDITIONAL RESOURCES TO ECONOMIC/COMMERCIAL CONCERNS. THE CLOSE LINKAGE BETWEEN FUNDAMENTAL POLITICAL AND ECONOMIC CONCERNS IS UNDISPUTED. YET, IN A GROWING

WORLD BESET WITH EVER MORE COMPLICATED PROBLEMS, THE FOREIGN SERVICE HAS BEEN ASKED, AGAIN AND AGAIN, TO DO MORE AND MORE WITH LESS AND LESS. FOREIGN SERVICE WORKLOADS IN SOME OF OUR MOST DEMANDING HARDSHIP POSTS WITH SOME OF OUR MOST PROMISING COMMERCIAL OPPORTUNITIES HAVE EXPANDED TO THE POINT WHERE OF NECESSITY COMMERCIAL ACTIVITIES HAVE BECOME LIMITED TO ESSENTIAL COMMERCIAL SERVICES SUCH AS SUPPORTING VISITING AMERICAN BUSINESSMEN AND SCHEDULED TRADE PROMOTION ACTIVITIES. RESOURCES ARE SIMPLY NOT SUFFICIENT TO MAINTAIN CONTACTS WITH A SUFFICIENT NUMBER OF FOREIGN GOVERNMENT OFFICIALS AND BUSINESSMEN TO HAVE THE EARLIEST AND BEST INFORMATION ON BILLIONS OF DOLLARS OF TRADE OPPORTUNITIES. AGAIN, ON THE BASIS OF COST EFFECTIVENESS, 50-100 ADDITIONAL FOREIGN SERVICE ECONOMIC/COMMERCIAL POSITIONS IN THE MIDDLE EAST AND OTHER POTENTIALLY LARGE MARKETS WILL PROVIDE MUCH MORE TO OUR EXPORTERS THAN EXPENSIVE TRADE CENTERS IN MARKETS WHERE THEIR EFFECTIVENESS IS QUESTIONABLE.

5. ALONG SIMILAR LINES, WE ARE SOMEWHAT DISMAYED BY THE ONGOING REORGANIZATION OF THE COMMERCE DEPARTMENT WHICH WE OBSERVE FROM AFAR. FROM OUR PERSPECTIVE, THE MOST EFFECTIVE OFFICES ASSISTING EXPORT PROMOTION (CAGNE AND THE MAJOR PROJECTS DIVISION) HAVE BEEN EMASCULATED. WE GATHER FROM RUMOR THAT EXPORT PROMOTION PERSONNEL AND BUDGETS ARE BEING CUT BY 25 PER CENT AND 40 PER CENT, RESPECTIVELY. WE BELIEVE THAT COMMERCE CAN MORE EFFICIENTLY

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SUPPORT BETTER AND MORE TIMELY TRADE PROMOTION EVENTS, BUT THE CURRENT GAME OF MUSICAL CHAIRS APPEARS AN INAUSPICIOUS START TO A NATIONAL EXPORT POLICY. WE HOPE THAT WE ARE WRONG ON THIS SCORE. REPORTING SIGNIFICANT TRADE OPPORTUNITIES BY THE FOREIGN SERVICE CAN ONLY BE EFFECTIVE IF THERE IS SOMEONE WITH COUNTRY KNOWLEDGE WHO CAN EXPERTLY COMMUNICATE WITH US BUSINESS AT HOME.

6. WE SENSE THAT THERE ARE VERY IMPORTANT POLICY DECISIONS BEING MADE IN VARIOUS AREAS (I.E., SEC 911 AND BOYCOTT PROVISIONS OF TAX REFORM LAW, BOYCOTT PROVISIONS OF EXPORT ADMINISTRATION ACT AND MUNITIONS CONTROL) AND THAT TRADEOFFS IN REDUCED EXPORTS OR SALES OF SERVICES ARE NOT RECEIVING ADEQUATE ATTENTION. EXCEPT FOR ARMS SALES, THESE FACTORS ARE DIFFICULT TO QUANTIFY. WHILE WE GENERALLY ACCEPT THE BASIC UNDERLYING POLICY COMPULSIONS, WE HAVE THE IMPRESSION THAT FOREIGN SERVICE REPORTING ON THE IMPACT AND IMPLICATIONS OF THESE POLICIES IS NOT BELIEVED BY VARIOUS AGENCIES IN WASHINGTON.

7. WE APPRECIATE THIS OPPORTUNITY TO FRANKLY EXPRESS OUR

VIEWS AT A TIME WHEN THE IMPORTANCE OF EXPORT PROMOTION
NEVER HAS BEEN CLEARER.
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